

BUSINESS

5 Appellate Cases Fashion Attorneys Are Watching

- The Supreme Court and the Ninth Circuit are considering some of the most pressing fashion law questions of 2019.

BY SINDHU SUNDAR

Mission Product Holdings Inc. v. Tempnology LLC (Supreme Court)

What it's about: What happens to licensing rights during a bankruptcy? The bankruptcy code offers protections for licensees of patents, copyrights and trade secrets, but trademark licensees haven't quite been included in that group, said attorneys. The bankruptcy code currently doesn't specifically include any special protections for trademark licensees when the trademark owner goes into bankruptcy.

That means companies who buy licenses to use trademarks could find themselves in the lurch if the company that sold them the rights to use those trademarks ever goes bankrupt and chooses to stop the licensing agreement. That exposes licensees to some risk when negotiating these agreements, and it may even scare them away from dealing with less-established or smaller companies, attorneys said.

"You may see companies seeking to take a security interest in the trademarks that are licensed to it, so that it's in a better position," said Karen Artz Ash, the national co-chair of Katten Muchin Rosenman LLP's intellectual property department. "Or they may just simply not pursue agreements with small brand owners, or those that appear more vulnerable."

Case background: The current dispute between apparel company Mission and textile company Tempnology, which made "chemical-free cooling fabrics," arose out of bankruptcy court, where Tempnology filed for Chapter 11 protection in 2015. Their dispute over licensing rights spilled over into the First Circuit appeals court, and the Supreme Court agreed to hear their case in October.

What's at stake: The case has particular significance for fashion companies, as they increasingly pursue license agreements even when they have developed businesses under their own labels. Companies who buy licenses to use trademarks often make considerable investments to do so, attorneys said, like hiring third-party manufacturers and investing in raw materials. Fashion companies may also invest in designers.

"If the court here comes out in favor of a licensee being able to retain those rights, it eliminates some of those concerns or minimizes it," said Artz Ash. "If the court comes out in the other direction and finds that the licensor has the right to reject, then you have a lot more uncertainty and you will have licensees wanting to assert different sorts of protections."

"Legal practitioners are waiting to see how the court rules, so we know how best to structure our deals and write out license agreements," she said.

Andrei Iancu, Under Secretary of Commerce for Intellectual Property and Director, Patent and Trademark Office, Petitioner v. Erik Brunetti

What it's about: Can the U.S. Patent and Trademark Office reject applications for "immoral" or "scandalous" trademarks?



The Supreme Court building.



The FUCTION streetwear collection from March 2019, as seen on the web site.



The Nestlé case involves plaintiffs who had worked as child slaves on cocoa farms.

The Lanham Act, which governs trademark rights, says yes. But Erik Brunetti, the founder of streetwear brand "FUCTION," says that violates the First Amendment's free speech rights. The Supreme Court, which heard oral arguments in this case earlier this month, previously ruled in 2017, in a case involving the Asian rock band called "The Slants," that the Lanham Act cannot restrict "disparaging" marks because that violates the First Amendment.

Case background: Since 1990, Brunetti has sold clothes under the "FUCTION" name, but when he eventually applied in 2011 to register the trademark, the PTO examiner rejected the application for a "scandalous" name. After the PTO's Trademark and Trial Appeal Board also backed that decision, Brunetti appealed to the Federal Circuit. The appeals court ruled that Lanham Act's restriction against scandalous trademarks is unconstitutional. The Supreme Court agreed in January to hear the case.

What's at stake: The question is fundamentally about free speech rights in the context of trademark law. Part of the dispute also centers around the subjective interpretation of what is immoral or scandalous, especially when it can lead to different outcomes in similar cases.

"It is apparent that the inconsistency of the USPTO's application is an issue and we look forward to some clarity from this decision as to how or if certain applications for marks considered 'immoral' or 'scandalous' will be reviewed by the USPTO," said Adrienne Montes of Gabay & Bowler LLP.

Unicolors Inc. v. H&M Hennes & Mauritz LP (Ninth Circuit)

What it's about: This case explores what attorneys described as some of the cracks in the copyright system, where so-called intangible property like fabric patterns can be created and potentially replicated anywhere in the world, but the enforcement and registration of such copyrights take place country by country. In short, what happens when two companies have both arguably copyrighted the same design, but in different countries?

Case background: Los Angeles-based Unicolors, a firm that makes fabric and clothing designs, has a U.S. copyright for designs that appear similar to a design used on some H&M jackets and skirts. The H&M design is covered by a copyright in China, which is owned by a company called Shaoying Domo Apparel Co. **What's at stake:** "You have these issues coming up more and more, where you have companies who own a large inventory of copyright designs, and are prolific litigants suing over their designs," said Laura Ganoza of Foley & Lardner LLP. "But it's rare that these cases go all the way to trial and go to appeal, that's going to be interesting to see how it shakes out."

Doe v. Nestlé S.A. (Ninth Circuit)

What it's about: This case explores the reach of the relatively obscure Alien Tort Statute, which allows companies to be held

liable in the U.S. when there are potential human rights violations at issue involving foreign victims.

Fashion companies may be watching the case closely especially in light of the controversy in recent years about the conditions of garment workers overseas who make their clothing. The issue has taken on more resonance since the 2013 Rana Plaza collapse in Bangladesh, which killed more than 1,100 workers, and injured many more.

Case background: The Nestlé case involves plaintiffs who had worked as child slaves on cocoa farms in Ivory Coast in Africa, and who sued companies who had manufactured, processed and sold cocoa beans, according to court documents. A three-judge panel of the Ninth Circuit issued an unfavorable ruling for Nestlé, but Nestlé now is asking a full panel of the Ninth Circuit to answer the question of when exactly a company can be held liable in the U.S. in these circumstances.

What's at stake: "This is a big deal, because the court had decided that an international company operating abroad may nevertheless have a sufficient connection to the U.S., that its U.S. subsidiary could be liable for its actions," said Scafidi of Fordham Law. "There is a potential application for the fashion industry, because we've also seen allegations of human rights violations related to garment workers."

Andrei Iancu Under Secretary of Commerce for Intellectual Property and Director, U.S. Patent and Trademark Office v. NantKwest Inc. (Supreme Court)

What it's about: Trademark applicants spurned by the U.S. Patent and Trademark Office can either appeal their rejection to the Federal Circuit or sue the PTO director in federal court, bearing the expenses of such of a suit. The question for the Supreme Court in this case is, what that expense includes – specifically, whether that includes the costs to the patent office for the time and work of its attorneys defending the agency in such suits.

"Bringing the patent office to court is substantially more expensive than appealing its rejection to the Federal Circuit, and it wouldn't be surprising if the court said those expenses should be borne by the plaintiff," said Susan Scafidi, director of Fordham Law School's Fashion Law Institute. "Why shouldn't the Supreme Court save the government some money?"

Case background: The conflict involves biotechnology company NantKwest and a rejected patent application for a cancer-treatment method. The issue went up before a federal court, which sided with the patent office. Then came the present conflict: The PTO asked NantKwest to reimburse more than \$110,000 of its costs, some \$80,000 of which included expenses for the work of its attorneys and a paralegal. The district court rejected such "personnel expenses," as did the Federal Circuit court of appeals. The patent office, represented by the solicitor general's office, is asking the Supreme Court to review the Federal Circuit's decision.

What's at stake: Very simply, it's matter of the cost of appealing these decisions. If it indeed includes the fees for the trademark office's attorneys for their work on the case, the decision about whether to appeal a rejection could be more complicated, legal observers said.

"I don't expect a massive change in terms of the fashion industry, but it is notable that those seeking patents could have a somewhat more expensive road in front of them," Scafidi said.